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April 18, 2006

AGENDA ITEM 6

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Kaiser Permanente: National Pricing Solution
- II. PROGRAM:** Health Program
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Introduction

Kaiser Permanente is introducing a new pricing system in the spring of 2006 for the 2007 rates. The National Pricing Solution (NPS) is a shift away from Kaiser Permanente's current Adjusted Community Rating (ACR) method which is unique among health plans. Under the ACR method, it was very difficult to compare other health plan rates to those of Kaiser Permanente. Kaiser Permanente recognized that employers need more detailed and industry standard information to develop their annual health premium rates.

The Kaiser Permanente NPS methodology uses the actual claims paid for CalPERS members in the past 12 months to predict future costs that compare with industry-wide claims based systems. This method gives Kaiser Permanente a rate calculation based on actual patient encounters that are similar to other health plans. These "paid claims" or patient encounters are now tracked and coded to capture all services delivered within Kaiser's integrated delivery system. They are adjusted for inflation, changes to benefits, and other factors, and are used to forecast future revenue requirements. In California, all Kaiser Permanente premium rates for CalPERS and other purchasers (for calendar year 2007 and beyond) will be calculated using the NPS system.

Background

In the past, purchasers and consultants have expressed numerous concerns about ACR methods and the need for greater transparency in Kaiser Permanente's rating practices. In response, the NPS has been in development by Kaiser Permanente for the past five years to meet this need. The NPS

system gives Kaiser Permanente the ability to align with industry standard rating practices and terminology. The advantages of NPS over ACR are identified in the following table.

| NPS | ACR |
|--|---|
| ➤ Aligns with industry standard rating practices and will allow CalPERS to more effectively evaluate and compare health plan rates. | ➤ Unique to Kaiser Permanente and not in alignment with industry standards. This makes it difficult to determine the relative value of Kaiser Permanente premium rate compared to other health plans. |
| ➤ Provides detailed utilization data expressed in dollar terms (just like other health plans). This shows relative cost value of Kaiser Permanente compared to other health plans. | ➤ Does not provide the transparency required to perform due diligence comparison analysis. |
| ➤ Uses industry standard terminology and allows CalPERS greater ability to compare health plans in term of cost. | ➤ Utilization not expressed in dollar terms but in “relative values”. |
| ➤ Provides CalPERS with an improved understanding of what’s driving health care costs. | ➤ Terminology is unfamiliar and complex rating methods makes it very difficult to compare data with other health plans. |

The information in the NPS system will be more extensive and current than what is used in the ACR system. NPS will allow CalPERS a better understanding of medical utilization and chronic disease trends to help identify specific actionable steps to address these issues. NPS will also help CalPERS to more easily compare Kaiser Permanente rates to other health plans, and better understand the sources of rate increases. It will provide better visibility of CalPERS-specific utilization and the relationship to renewal rates. NPS simplifies and streamlines premium rate calculations, provides transparency into the sources of the premium changes from year to year, and provides Kaiser Permanente the ability to expand its health insurance products.

Reporting

NPS includes additional reports for CalPERS that support the documentation of the premium rates. These reports are similar to those of other health plans and provide better comparability. The NPS reports include:

- a detailed summary of CalPERS rates and benefits

- a report of the age and gender census of CalPERS members
- CalPERS specific historical claims and utilization
- comparisons of claims costs for CalPERS with the Kaiser Permanente health plan average group
- year-to-year changes in utilization and claims costs for CalPERS.

This reporting package will provide detailed information about the types of medical services that are responsible for the changes in premium rates. With this information, CalPERS will have an enhanced set of information to study the underlying trends in health care costs, utilization and health status of our members, which will better facilitate our ability to partner with Kaiser Permanente to design joint initiatives and to evaluate health care efficiencies, effectiveness and value.

Summary

Kaiser Permanente believes the new system supports CalPERS' goal for increased transparency and accountability from its health plans. NPS will provide CalPERS better visibility into the source of rate changes. In addition, the enhanced utilization reports will allow CalPERS and Kaiser Permanente to identify specific medical management issues, develop member engagement initiatives and improve outcomes.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan. It is brought to the Committee as informational.

VI. RESULTS/COSTS:

Costs associated with this item are continuously appropriated in the Public Employees' Health Care Fund.

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Attachment

